

PINNACLE CANYON ACADEMY, INC.

FINANCIAL STATEMENTS

FOR YEAR-ENDED JUNE 30, 2005

## Table of Contents

<b>Independent Auditors' Report .....</b>	<b>3</b>
<b>Financial Statements:</b>	
<b>Statement of Financial Position .....</b>	<b>4</b>
<b>Statement of Activities and Changes in Net Assets .....</b>	<b>5</b>
<b>Statement of Cash Flows .....</b>	<b>6</b>
<b>Notes to the Financial Statements .....</b>	<b>7</b>
<b>Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed In Accordance with Government Auditing Standards .....</b>	<b>11</b>
<b>Utah State Report on Compliance .....</b>	<b>12</b>

# Aycock, Miles & Associates, CPAs, P.C.

Certified Public Accountants

58 East 100 North (83-13) • Roosevelt, Utah 84066 • Phone (435) 722-5153 • Fax (435) 722-5095

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## Independent Auditors' Report

Board of Education  
Pinnacle Canyon Academy

We have audited the accompanying statement of financial position of Pinnacle Canyon Academy (a nonprofit organization) as of June 30, 2005, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pinnacle Canyon Academy as of June 30, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2005 on our consideration of the Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Aycock, Miles & Associates, CPAs

October 25, 2005

Pinnacle Canyon Academy  
**Statement of Financial Position**  
June 30, 2005

	<u>June 30, 2005</u>
<b>Assets:</b>	
<b>Current Assets:</b>	
Cash	\$ 40,289
Accounts receivable	<u>61,717</u>
Total	102,006
<b>Noncurrent Assets:</b>	
Land	5,000
Construction in progress	50,725
Buildings	36,165
Property & equipment	228,395
Accumulated depreciation	<u>(171,940)</u>
Total	<u>148,345</u>
Total Assets	<u><u>\$ 250,351</u></u>
<b>Liabilities and Net Assets:</b>	
<b>Current Liabilities:</b>	
Accounts payable	\$ 9,637
Accrued payroll expenses	<u>67,645</u>
Total	77,281
<b>Net Assets:</b>	
Unrestricted Net Assets	173,070
Temporarily Restricted Assets	-
Permanently Restricted Assets	<u>-</u>
Total	<u>173,070</u>
Total Liabilities and Equity	<u><u>\$ 250,351</u></u>

See accompanying notes. Page 4

Pinnacle Canyon Academy  
**Statement of Activities and Changes in Net Assets**  
For the year ended June 30, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and Revenues:</b>				
Support:				
Federal grants	\$ -	\$ 280,345	\$ -	\$ 280,345
State grants	1,252,168	285,848	-	1,538,016
Local/other	36,765	105,853	-	142,618
	<u>1,288,933</u>	<u>672,046</u>	<u>-</u>	<u>1,960,979</u>
Revenues:				
Tuition	7,656	-	-	7,656
Interest	307	-	-	307
	<u>7,963</u>	<u>-</u>	<u>-</u>	<u>7,963</u>
Other:				
Restrictions satisfied by payments	672,046	(672,046)	-	-
<b>Total Support &amp; Revenue</b>	<u>1,968,942</u>	<u>-</u>	<u>-</u>	<u>1,968,942</u>
<b>Functional Expenses:</b>				
K thru 9th grade education:				
Instruction	1,049,278	-	-	1,049,278
Instruction support	207,998	-	-	207,998
Business	136,188	-	-	136,188
Central support	48,320	-	-	48,320
Operations and maintenance	352,993	-	-	352,993
Transportation	-	-	-	-
Food services	102,350	-	-	102,350
Non K-12 programs	47,702	-	-	47,702
<b>Total Expenses</b>	<u>1,944,828</u>	<u>-</u>	<u>-</u>	<u>1,944,828</u>
<b>Change in Net Assets Before Extraordinary Items</b>	<u>24,114</u>	<u>-</u>	<u>-</u>	<u>24,114</u>
<b>Extraordinary Items:</b>				
Loss of investment in real estate transaction	(22,500)	-	-	(22,500)
Loss on disposition of leasehold improvements	(283,665)	-	-	(283,665)
<b>Change in Net Assets</b>	<u>(282,051)</u>	<u>-</u>	<u>-</u>	<u>(282,051)</u>
<b>Beginning Net Assets (restated)</b>	<u>455,121</u>	<u>-</u>	<u>-</u>	<u>455,121</u>
<b>Ending Net Assets</b>	<u>\$ 173,070</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 173,070</u>

Pinnacle Canyon Academy  
**Statement of Cash Flows**  
For the year ended June 30, 2005

	<u>2005</u>
<b>Cash Flows from Operating Activities:</b>	
Decrease in net assets	\$ 24,114
Adjustments to reconcile change in net assets to cash flow:	
Depreciation	66,758
(Increase) decrease in accounts receivable	(7,816)
(Increase) decrease in other assets	100
Increase (decrease) in accounts payable	(29,431)
Increase (decrease) in accrued expenses	<u>4,551</u>
Total Cash Flow from Operations	58,276
 <b>Cash Flows from Investing Activities:</b>	
Purchase of land & buildings	(50,725)
Investment lost in real estate transaction	(22,500)
Purchase of equipment	<u>-</u>
Total Cash Flow from Investments	(73,225)
 <b>Cash Flows from Financing Activities:</b>	
No activity	<u>-</u>
Total Cash Flow from Financing Activities	<u>-</u>
 <b>Total Increase (Decrease) in Cash</b>	<b>(14,949)</b>
 Beginning Cash	<u>55,238</u>
Ending Cash	<u>\$ 40,289</u>

*Supplementary Information: \$0 was paid in interest expenses and income tax.*

Pinnacle Canyon Academy  
**Notes to the Financial Statements**  
June 30, 2005

**NOTE A—NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities**

Pinnacle Canyon Academy was formed in 1999. The Academy was organized by a group of parents, teachers, business professionals, and physicians to provide an educational opportunity in Carbon County that was not governed by the local School District and was not religious based. The Academy was founded on the premise that parents as partners in the learning process leads to success for each child. Every parent is asked to be involved with the school either through committees or volunteering time in the classroom or with other needs the school may have as they arise. In addition to parental involvement, the school emphasizes the use of technology in the classroom.

**Basis of Accounting**

The Academy prepares its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles.

**Contributions and Promises to Give**

Contributions are recognized when the donor makes a promise to give to the Academy that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily restricted net assets even if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Academy uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. At year-end, the Academy had no material promises receivable.

**Contributed Services**

During the years ended June 30, 2005, the value of contributed services meeting the requirements for recognition in the financial statements was not material and has not been recorded. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Academy's facilities, but these services do not meet the criteria for recognition as contributed services. The Academy receives hundreds of volunteer hours per year.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Pinnacle Canyon Academy  
**Notes to the Financial Statements**  
June 30, 2005

Property and Equipment

The Academy's policy is to capitalize property and equipment over \$5,000 beginning July 1, 2002. Lesser amounts are classified as operating supplies. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Academy reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Academy reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method. Depreciation expense for the year-end June 30, 2005 was \$66,758.

Financial Statement Presentation

The Academy has adopted Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Academy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by the statement, the Academy does not use fund accounting.

Contributions

The Academy has also adopted SFAS No. 116, Accounting for Contributions Received and Contributions Made. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

Income Taxes

The Academy is a not-for-profit entity that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

Investments

The Academy has adopted SFAS No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. At year-end, the Academy did not have any investments that were applicable to SFAS No. 124.



Pinnacle Canyon Academy  
**Notes to the Financial Statements**  
June 30, 2005

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Academy considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

**NOTE B—RESTRICTIONS ON NET ASSETS**

*Unrestricted Assets*—The unrestricted net asset balance pertains primarily to amounts that are not designated for specific purposes apart from minimum school requirements.

*Temporarily Restricted Assets*—The temporarily restricted assets pertain to grants and funding that are restricted for particular educational programs. There was no temporarily restricted asset balance at year-end.

**NOTE C—RETIREMENT BENEFITS**

The Academy provides a 401(K) retirement plan to its employees which allows eligible employees to make annual elective salary deferrals, expressed as a percentage of compensation. The Academy matches the annual elective contribution of the employee in an amount not exceeding 50% of the employees' salary deferral up to 3% of the employees' compensation. Employees contributed \$5,253 and the Academy contributed \$1,400 for the fiscal year ending June 30, 2005.

**NOTE D—COMPENSATED ABSENCES**

Compensated absences (accrued sick and personal leave time) have been accrued for eligible employees in the financial statements.

**NOTE E—CASH AND CASH EQUIVALENTS**

The Academy's cash is held mainly in one account with Eastern Utah Community Credit Union. The annual percentage interest earned was negligible. At June 30, 2005, the carrying balance was \$40,289 and the bank balance was \$84,711. Credit Union account insurance covers up to \$100,000. Thus, the Academy's cash balance at year-end was insured.

**Pinnacle Canyon Academy**  
**Notes to the Financial Statements**  
**June 30, 2005**

**NOTE F-OPERATING LEASE COMMITMENTS**

Prior to year ending June 30, 2005, there were two significant short-term leases. Their site-built office/classroom space was rented and a number of modular classrooms were rented for a combined \$15,471 per month. In June, 2005, these leases were canceled and the Academy changed locations during the summer. Prior to cancellation of the leases in June, 2005, the Academy had \$184,990 in lease expense.

**NOTE G-CONSTRUCTION COMMITMENT**

During late summer and fall of 2005, the Academy purchased property and buildings in Price, Utah for school facilities. At this site, the Academy is using an existing structure and has begun construction of another building to complement the existing structure. The cost of the existing building and land is about \$500,000 and the estimated cost of the construction project is \$3,250,000.

Financing for the project comes from two loans. The first loan is from the U.S.D.A. for \$2 million at 4.5%. The second loan is from U.S. Bank and guaranteed by the U.S.D.A. for \$1.75 million beginning at 7.2% with a variable interest rate.

**NOTE H-EXTRAORDINARY ITEMS**

The Academy left its leased location and a substantial amount of leasehold improvements when it moved to its new location. The book value (historical cost less accumulated depreciation) of the leasehold improvements was recorded as an extraordinary loss of 283,665 when it was abandoned.

Also, the Academy invested \$22,500 in an unsuccessful real estate purchase and this has been recorded as an extraordinary loss.

**NOTE I-BEGINNING NET ASSETS RESTATED**

Beginning net assets have been reduced to correct for errors in accounts receivable balances recorded in the prior two years. The effect of eliminating these incorrect balances was a reduction of beginning net assets and accounts receivable for \$28,127. For the two year period, the change in net assets reflected too much income. The misstatement is considered immaterial for either year.

# **Aycock, Miles & Associates, CPAs, P.C.**

## **Certified Public Accountants**

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### **Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

Board of Education  
Pinnacle Canyon Academy

We have audited the financial statements of Pinnacle Canyon Academy (a nonprofit organization) as of and for the year ended June 30, 2005, and have issued our report thereon dated October 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether Pinnacle Canyon Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatement in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Aycock, Miles & Associates, CPAs

October 25, 2005

# **Aycock, Miles & Associates, CPAs, P.C.**

## **Certified Public Accountants**

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### **Utah State Compliance Report**

Board of Education  
Pinnacle Canyon Academy

We have audited the general purpose financial statements of Pinnacle Canyon Academy (a non profit charter school) for the year ended June 30, 2005, and have issued our report thereon dated October 25, 2005. Our audit included testing on the Academy's compliance with those specific major program compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

#### **Minimum School Program**

The Academy received major State Assistance from the Utah State of Office of Education by means of minimum school program funding. Major assistance is required to be examined for specific grant requirements.

The management of Pinnacle Canyon Academy is responsible for the Academy's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Academy's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with applicable major grant specific requirements.

In our opinion, the Pinnacle Canyon Academy complied, in all material respects, with the major grant specific requirements for the year ended June 30, 2005.

**Aycock, Miles & Associates, CPAs**

October 25, 2005